

PACIFIC FUTURES:

SUPPORTING PACIFIC STATES



The World Bank Pacific Department

www.worldbank.org/pi



Key points to discuss

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- Impact of aid in the Pacific is a source of concern and debate
- Need to rethink ways of delivering aid in the Pacific
- Not necessarily new ideas: rather an acceptance and operationalization of these ideas
- Acceptance by development partners and countries: Has to be done jointly
- Framework applies differently to different PICs
- Stop thinking in terms of aid dependency or exit strategies
- Taking a long term view can improve effectiveness – (did not the Compact try that in N. Pacific?)



Key points to discuss

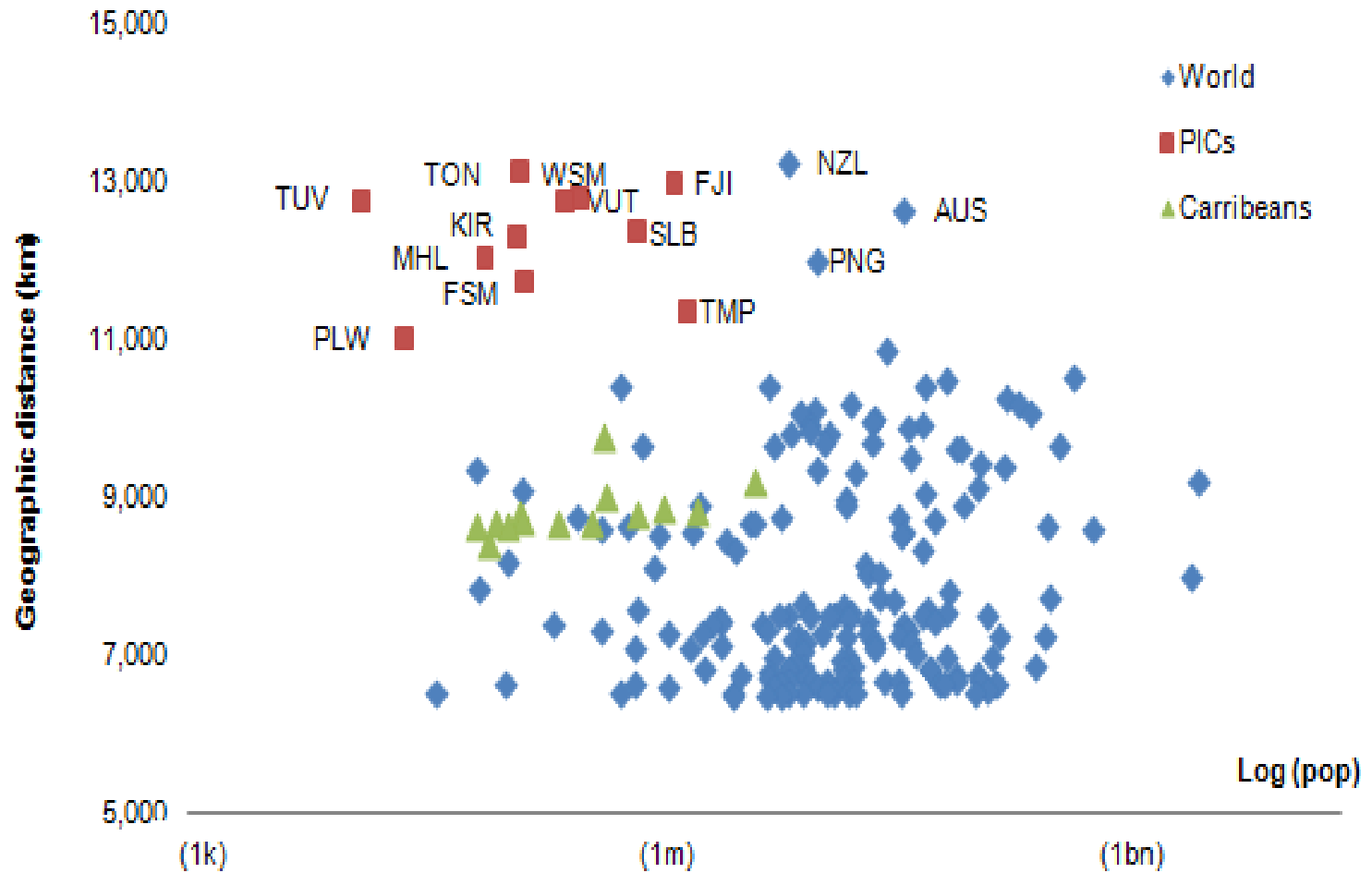
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- Start thinking about how aid can improve delivery of public services in cooperation with the private sector
- A broader definition of international assistance is needed
- Capacity (weak, shallow, thin) – what role for aid?
- Aid can improve governance and improved governance can increase aid effectiveness
- Consider the “Costs” vs Benefits of Sovereignty
- GDP growth may not be the best metric for assessing the impact of aid



Smallness and Remoteness set the PICs apart

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Economic Geography: Implications

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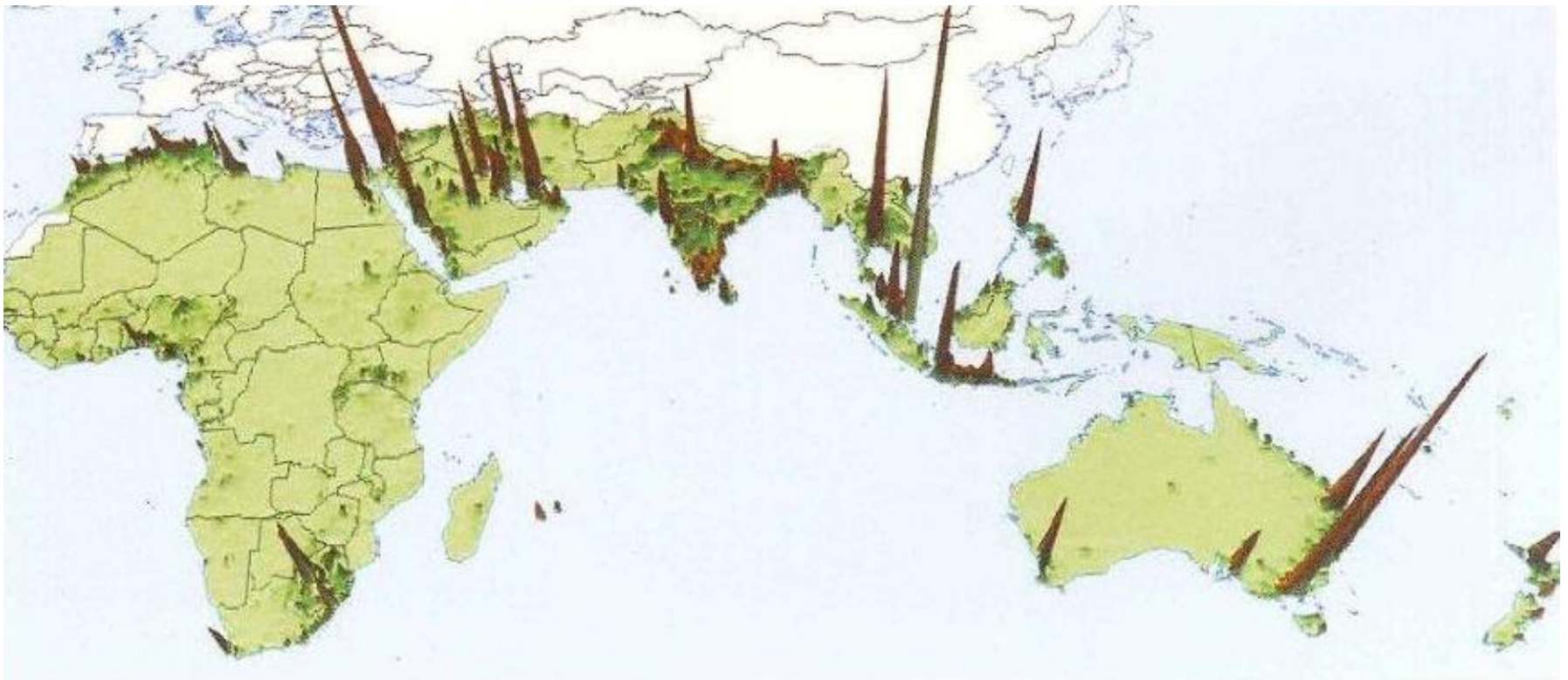
- Economic geography has implications for economic growth
- Growth is about market access and agglomeration economies
- PICs are not well placed on these counts
- Two takeaways:
 - 'Right' or 'modest' expectations about growth
 - Focus on delivery of public services (social and infrastructure)



Growth comes in agglomerations

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Production Per Square Kilometre



Economic integration between leading and lagging areas increases efficiency but does not guarantee evenly distributed prosperity.

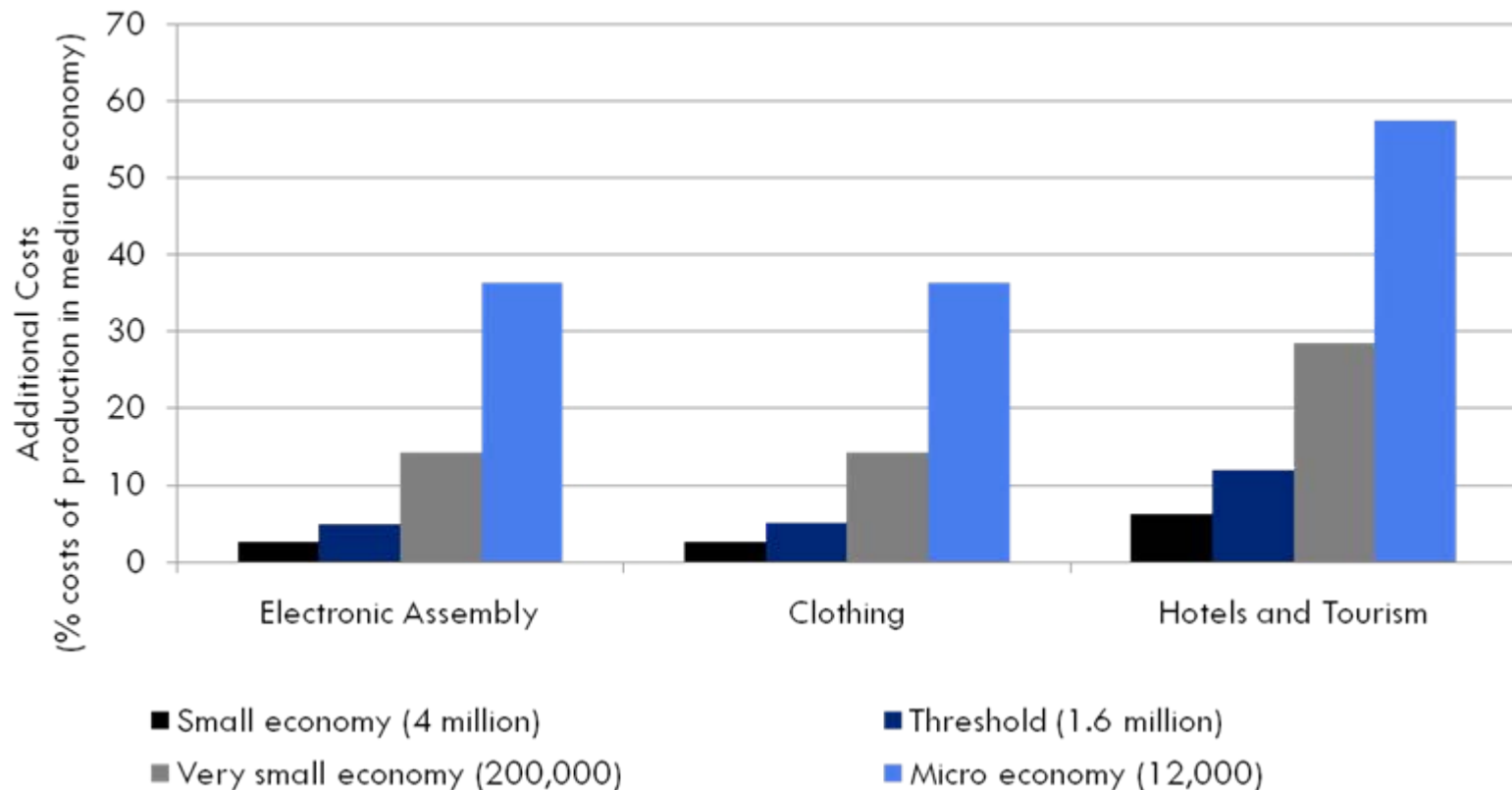


Smallness increases production costs

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Additional Costs of Production Resulting from Smallness

(Source: Winters and Martin 2004)





Raising living standards

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- What sectors can growth come from?
 - Natural resources, including fish and tourism
 - Niche products

- How can living standards further improve?
 - Labor mobility
 - Remittances

- Improved Infrastructure: Especially connectivity

- Progress on both will require external assistance
 - Technical advice; regulation; infrastructure



Strengthening public services

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- Two way (reinforcing) interaction between strengthening public service delivery and increasing incomes

- Challenges in improving public services
 - Lack of scale economies
 - Fiscal revenues will likely fall short of cost
 - Capacity constraints
 - Governance

- Addressing these challenges
 - Regional approaches
 - Aid (long term)



Regionalism: Pacific Plan?

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- Regional Approaches
 - How to define a region? Sub-regions?
- For growth
 - Telecoms, transport, energy
 - Fisheries, tourism
 - Trade and labor mobility
- For governance (Pacific Plan)
 - transparent, accountable and equitable management of all resources
 - a prerequisite for sustainable development and economic growth



Regional provision of services

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- National provision is suboptimal
- Economic logic for regional provision is solid
 - Economies of scale
 - Domestic capacity
- So what holds it back?
 - An appropriate grouping of countries
 - Sub-regions due to coordination constraints
 - Contract with nearby large economy
 - Costs
 - Will be higher because currently there is under provision
 - Long-term funding assurance could strengthen regional bodies
 - Notions of sovereignty



Conventional wisdom

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Conventional problem:

Aid supports large public sectors → squeezes out the private sector → [weakens governance] → reduces growth

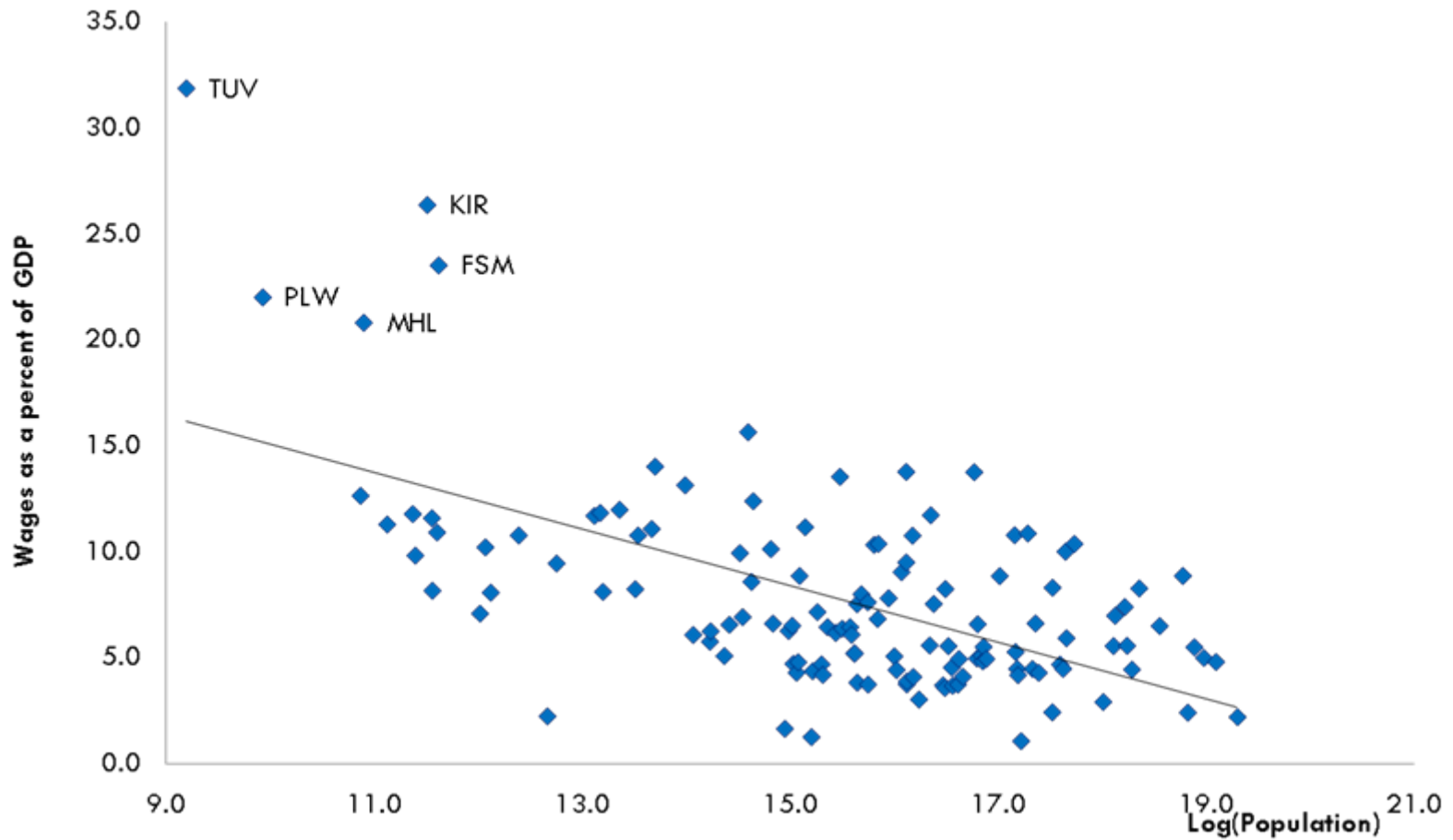
Conventional solution:

Reduce public sectors → improve the business environment → private sector will grow → will generate taxes to pay for public services → aid will dwindle → economy will be self-reliant



Smaller countries have larger public sectors

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Rethinking conventional approaches

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- Reduce public sector → Consider impacts on private sector. And even if 'large' how can it improve public service delivery?
- Private sector will grow → And it should, but may not generate sufficient revenues or jobs
- Improve business environment → Yes, but keep in mind what is really needed in a small economy and that regulatory capacity (or market institutions) will be challenged
- Aid will dwindle → Yes, some forms of aid and in some countries. But it could take new forms and modalities. Take a long term view



Aid and Governance

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- The technical side of governance or state capacity:
Public Financial Management Systems; Economic and Social Statistics; Civil Service

- Does aid harm governance?
- Can aid improve governance?
- Is aid more effective if governance is better?

- Incentives versus capacity
- Supply versus demand for good governance
- Modern versus traditional governance
 - How can they better interact?

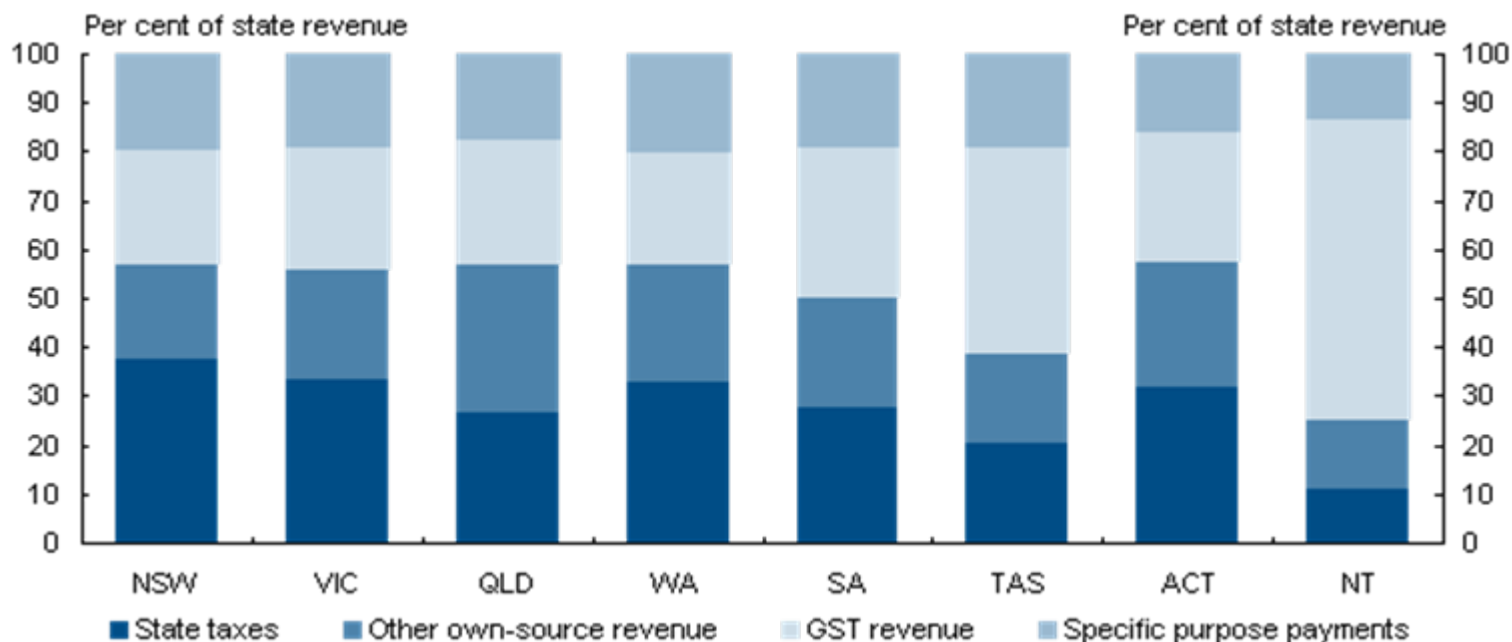


We need new ways of delivering aid in the Pacific

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Australian State Revenues by Source – 2009

Source: Australian Ministry of Finance



Fiscal transfers between geographical areas are common within and between counties.



Can aid can be viewed as similar to fiscal transfers within countries?

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Table 8: Effect of horizontal fiscal equalisation, 2007-08

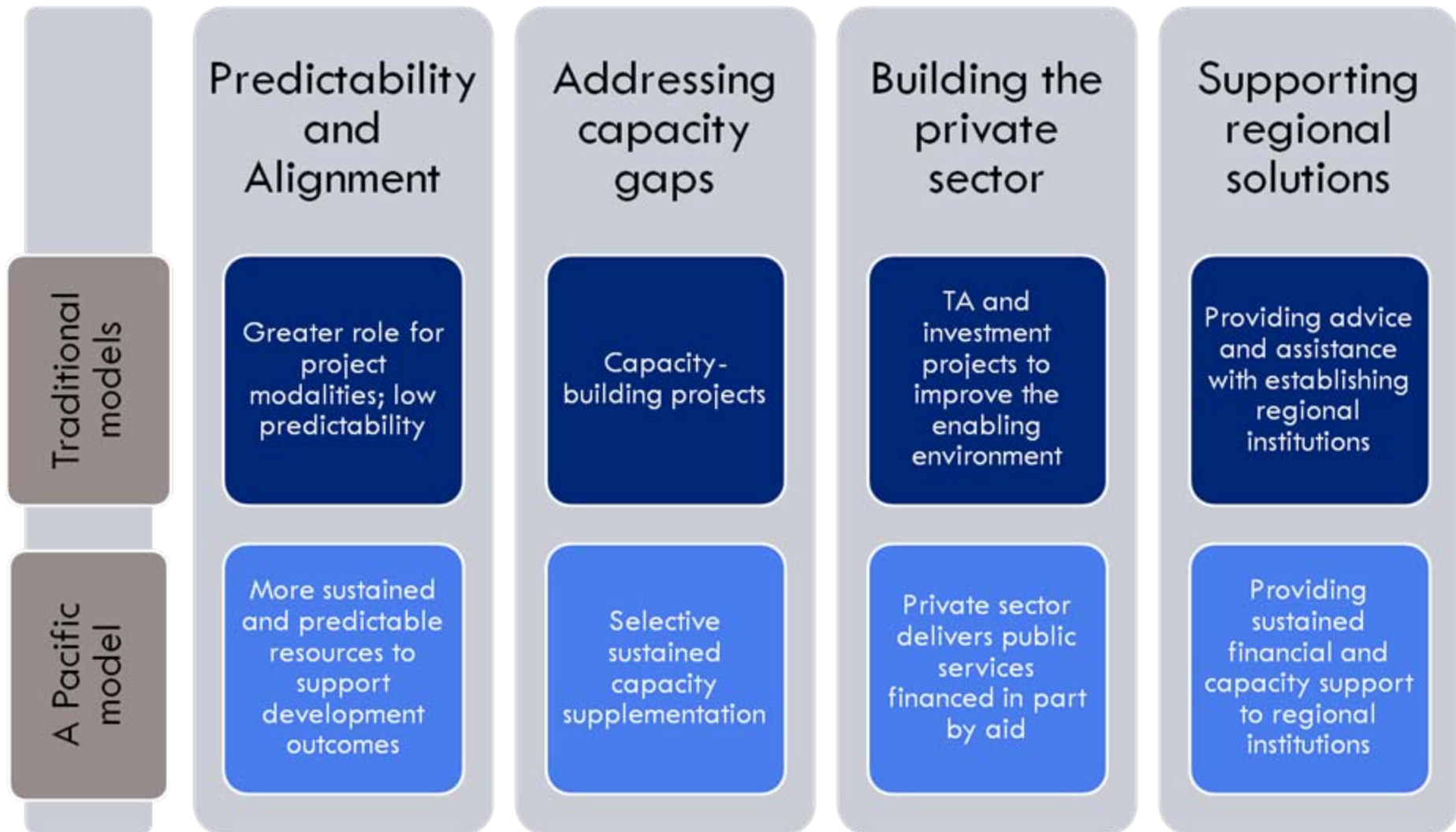
	GST pool distributed using GST relativities	Equal per capita distribution of GST pool	Redistribution(a)	Estimated population	Per capita redistribution
	\$m	\$m	\$m	million	\$
NSW	14,858.3	16,683.6	-1,825.3	6.9	-263.4
VIC	11,275.4	12,517.6	-1,242.3	5.2	-239.0
QLD	10,089.9	10,031.2	58.6	4.2	14.1
WA	4,822.9	5,091.5	-268.5	2.1	-127.0
SA	4,577.6	3,790.6	787.1	1.6	500.0
TAS	1,834.2	1,187.7	646.5	0.5	1,310.6
ACT	933.9	803.2	130.7	0.3	391.7
NT	2,222.1	508.8	1,713.3	0.2	8,108.1
Total	50,614.2	50,614.2	3,336.1	21.0	na

a. The total redistribution of \$3,336.1 million is the sum of positive (or negative) items in that column.



A longer-term approach would allow improvements in effectiveness

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A longer-term approach would allow improvements in effectiveness

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PEFA Indicator

	Fiji	Kiribati	Samoa	Solomons	Vanuatu	Tonga
Annual deviation of actual budget support from the forecast provided by the donor agencies	C				C	
Completeness and timeliness of budget estimates by donors for project support.	C	D	C	C	D	D
Frequency and coverage of reporting by donors on actual donor flows for project support.	C	D	C	D	C	D
Proportion of aid that is managed by use of national procedures	C	D	D	D	D	

Donor practices also need to be improved



Other forms of international assistance are also needed

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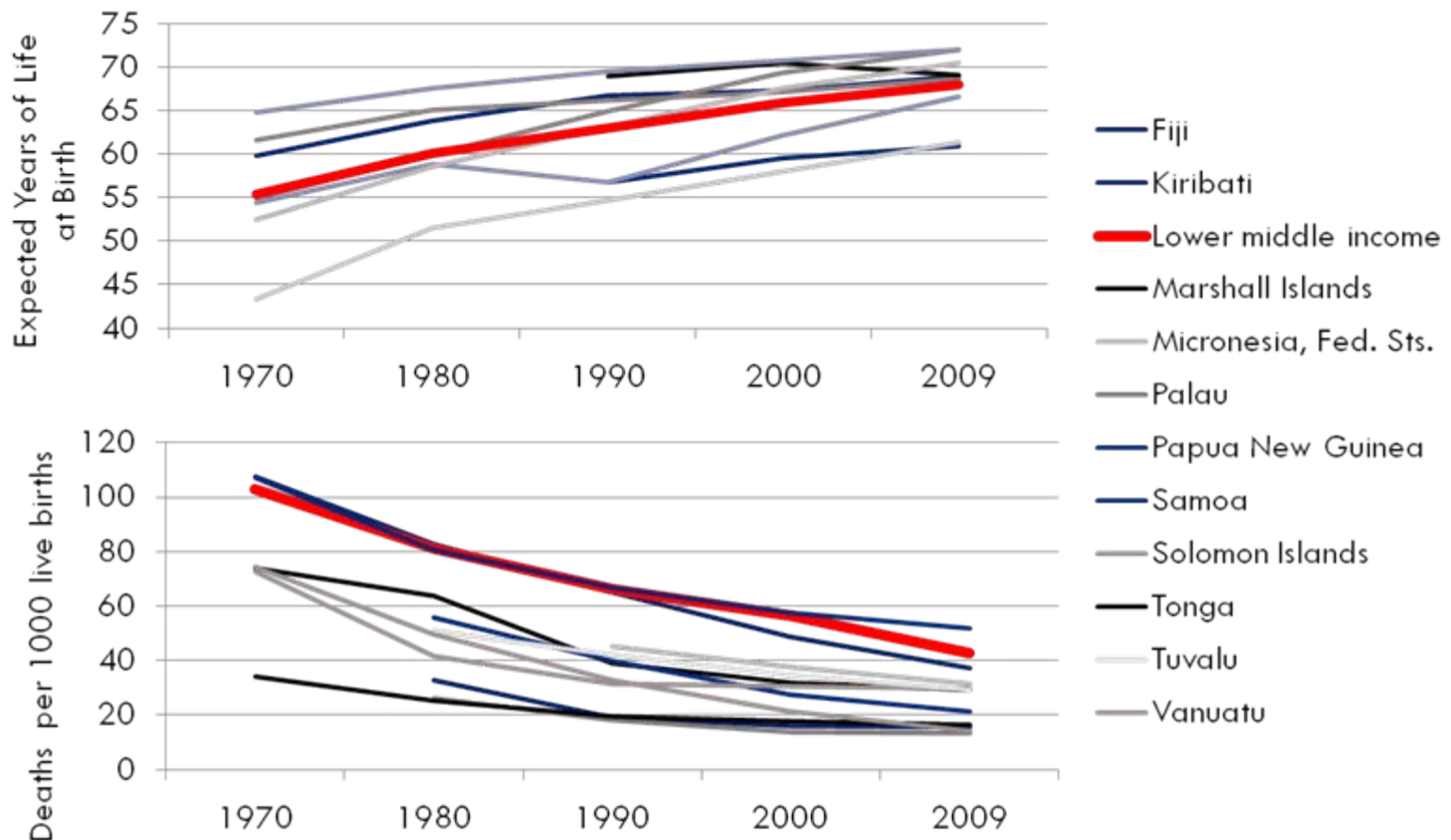
- Labor mobility can deliver a triple win... with development partners' support
 - ▣ Sending countries
 - ▣ Migrants
 - ▣ Recipient countries (PICs could be recipients too)
- “Contracting” with large-country regulatory institutions sometimes makes sense
 - ▣ Reduced capacity diversion and fiscal costs
 - ▣ Assists with economic integration
 - ▣ Many existing precedents



Economic growth may not be the best metric for assessing the impact of aid

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Expectancy of life and infant mortality – Pacific Island Countries



By many measures, aid has not failed the Pacific.